

01 July 2020

Banking May 2020 Stats –Loan Allowances To Accelerate?

NEUTRAL



By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

May 2020 system loans growth was just marginally slower at 3.9% YoY vs. Apr 2020 of 4% YoY, as the pace of growth for both household (HH) and business loans eased in May. Loan leading indicators were also somewhat disappointing as both system loan applications and approvals were flat MoM despite businesses re-opening and individuals returning to work. On the flipside, asset quality appears well preserved with system gross impaired loans down 1% MoM. System loan loss coverage, however, rose further to 89% from 86% in Apr (Mar: 82%), which likely signalled banks are booking in further pre-emptive loan provisioning in 2QCY20. We keep our NEUTRAL call on the sector with RHB (OP, TP: RM6.00) as our top sector pick.



MoM loan growth in May 2020 continued to remain muted and hence, YoY growth was marginally lower at 3.9% (Apr 2020: +4% YoY). The pace of lending to households (HH) continued to moderate, at 3.2% YoY in May vs. Apr 2020: +3.3% YoY. Residential mortgages and personal loans were the key drivers of YoY growth. Similarly, loans to businesses also moderated in May, to 4.9% YoY vs. Apr 2020: 5.1%. Not surprisingly, lending to construction (+1% YoY) and real estate (-1% YoY) remained soft. HH loan repayments and disbursements continued to be impacted by the loan moratorium with repayment and disbursement levels c.43% lower from a year ago. However, we note a pick-up in HH loan disbursements in May (+44% MoM) thanks to disbursements for auto and residential mortgages.

In terms of loan leading indicators, overall system loan applications and approvals were flat MoM (-39% YoY/-54% YoY respectively), which was somewhat disappointing as we had hoped to see a MoM rebound as businesses re-opened and individuals returned to work. That said, the headline trend masked a strong recovery in HH loan applications (+64% MoM) and approvals (+53% MoM), which was offset by a drop in business loan demand (-19% MoM) and approvals (-16% MoM). The MoM jump in HH loan applications and approvals were both driven by auto financing and residential mortgages. As for business loans, applications and approvals were broadly lower across the various sectors.

As for asset quality, system gross impaired loans (GIL) continued to remain under control with a further MoM decline of 1% (+5% YoY) as household impaired loans eased 4% MoM (+5% YoY) while business impaired loans were stable vs. Apr (+5% YoY). By sector, we note a spike in impaired loans to the manufacturing sector (+9% MoM/+61% YoY), but other “vulnerable” sectors such as wholesale & retail trade, restaurants and hotels (+2% MoM/-6% YoY) and finance, insurance and business activities (-1% MoM/-7% YoY) were well contained. Overall, system GIL ratio was relatively stable at 1.6%, with household impaired loans ratio at 1.0% and business impaired loans ratio at 2.3%. As mentioned previously, loan staging for loans that are under moratorium are now frozen. Thus, we expect household asset quality to remain relatively stable during this period. Near-term upside risk to GIL would largely come from the corporate sector, in our view. While asset quality appears stable, system loan loss coverage (LLC) rose further to 89%, as compared to 86% in Apr 2020 and 82% in Mar 2020 as c.RM1.6b was added to loan loss coverage. We think that this likely signalled banks are booking in further pre-emptive provisioning in the upcoming 2QCY20 results.

YoY, May 2020 deposit growth was stable at c.4% (Apr 2020: 4%) but flat MoM. As noted from the recent 1QCY20 results, CASA growth picked up pace to +14% YoY, as compared to +13% YoY in Apr while higher cost deposits, i.e. fixed deposits and negotiable instruments of deposits, were down 1% YoY (Apr: -3% YoY). By holders, individual deposits rose 6% YoY (Apr 20: +6% YoY), partly aided by the loan moratorium, we believe, but deposits from businesses continued its YoY decline at -1% (Apr 20: -2% YoY).

Maintain NEUTRAL sector call. In our view, banks earnings ahead remain uncertain and volatile while the path to recovery is unlikely to be clear cut. Early signs from the banking statistics suggest that pre-emptive loan provisioning may see an acceleration in 2Q. In mitigation, the reopening of the economy and significant cuts to policy rate have helped clear some overhang for the sector. Also, Day One Modification losses may not be as bad as feared. RHB (OP, TP: RM6.00) is our top sector pick on attractive valuations and solid capital ratios to absorb higher loan allowances while maintaining a decent dividend payout. In addition, it is less impacted by Day One modification losses. We also like Hong Leong Bank (OP; TP: RM17.00) as a defensive, “high quality” bank with a strong digital infrastructure that is poised to benefit from a post Covid-19 environment. AMMB’s (OP; TP: RM3.60) valuations appear undemanding and we think the stock could be an attractive catch-up play. Furthermore, AMMB had booked in aggressive pre-emptive loan provisioning during its 4QFY20 results, which could help keep further allowances ahead in check while management’s recent guidance on Day One Modification losses seem much lower than initial estimates. Near-term key upside risk to our sector call is a liquidity fuelled rally and/or rotational play into value/cyclicals. Key near-term downside risk is the emergence of a Covid-19 second wave.

01 July 2020

Stable loan growth in May

Fig 1: System Loan Growth

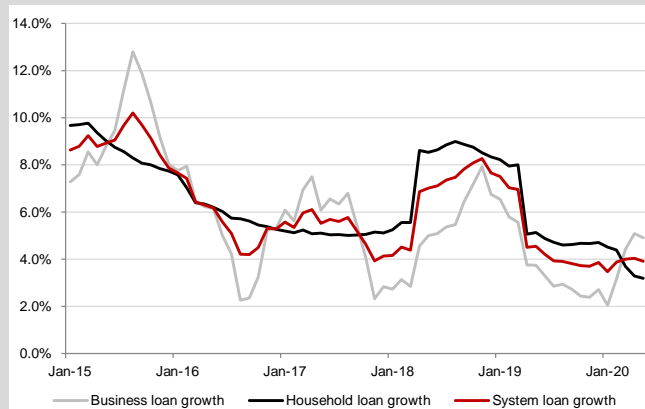
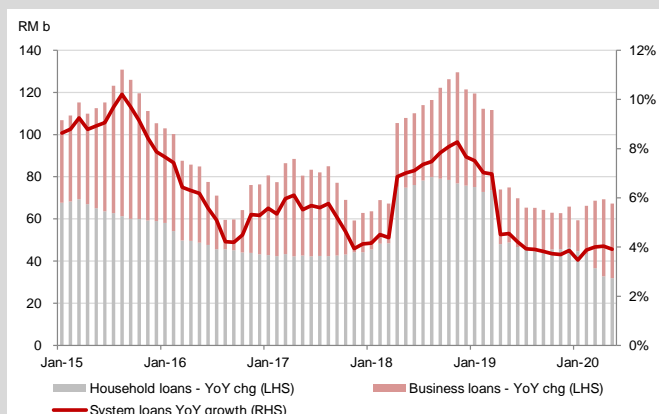


Fig 2: System Loans Growth Drivers



Source: BNM, Kenanga Research

Table 1: Breakdown of System Loans

RM'm	Jan-20	Feb-20	Mar-20	Apr-20	May-20	MoM Growth (%)	YoY Growth (%)
Purchase of securities	84,160	82,542	79,390	79,964	80,027	0.1%	-3.4%
Purchase of transport vehicles	167,331	166,845	165,990	165,165	165,163	0.0%	-1.9%
Purchase of residential property	607,471	610,435	612,954	615,072	617,543	0.4%	6.6%
Purchase of non-residential property	225,376	225,597	225,624	225,704	226,151	0.2%	1.3%
Personal use	97,360	97,509	97,927	98,200	98,667	0.5%	4.0%
Credit card	41,111	40,114	38,325	35,501	35,302	-0.6%	-9.6%
Construction	59,639	59,989	60,454	60,936	61,327	0.6%	8.6%
Working capital	392,584	395,542	404,652	404,963	407,107	0.5%	4.6%
Others	95,462	96,082	98,272	99,511	97,877	-1.6%	10.4%
Total system loans	1,770,493	1,774,654	1,783,588	1,785,016	1,789,165	0.2%	3.9%
- Household loans	1,033,404	1,033,026	1,030,204	1,029,857	1,033,038	0.3%	3.2%
- Business loans	737,089	741,627	753,384	755,158	756,128	0.1%	4.9%

Source: BNM, Kenanga Research

MoM pickup in HH loan disbursements towards auto loans and mortgages

Fig 3: Loans Disbursement Trends

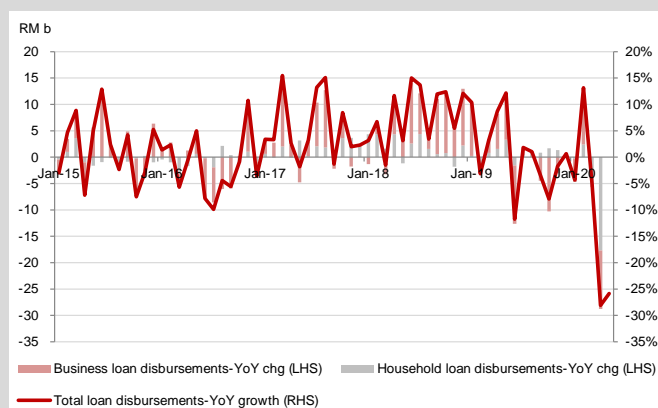
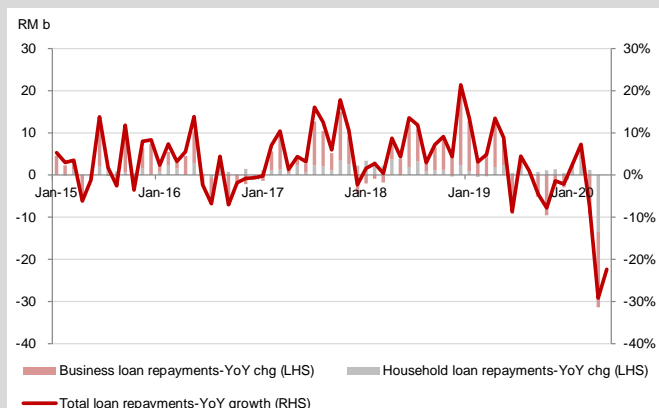


Fig 4: Loans Repayment Trend



Source: BNM, Kenanga Research

01 July 2020

Table 2: Breakdown of System Loans Disbursement

RM'm	Jan-20	Feb-20	Mar-20	Apr-20	May-20	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,980	2,843	2,643	2,007	2,013	0.3%	-42.9%
Purchase of transport vehicles	4,054	3,312	2,673	181	1,256	592.6%	-71.6%
Purchase of residential property	7,741	7,452	6,912	2,265	3,345	47.7%	-53.3%
Purchase of non-residential property	4,174	3,199	3,510	1,249	1,726	38.2%	-63.5%
Personal use	3,000	3,017	2,978	1,108	1,313	18.5%	-55.1%
Credit card	13,525	11,468	10,103	6,544	9,117	39.3%	-28.2%
Construction	2,953	2,171	3,255	1,903	1,926	1.2%	-26.9%
Working capital	60,708	58,018	66,009	54,858	52,650	-4.0%	-9.8%
Others	4,420	3,794	5,584	3,611	2,499	-30.8%	-56.9%
Total loans disbursed	104,554	95,275	103,667	73,726	75,845	2.9%	-25.8%
- Household loans	30,795	27,043	24,455	11,607	16,702	43.9%	-43.2%
- Business loans	73,758	68,231	79,212	62,120	59,143	-4.8%	-18.9%

Source: BNM, Kenanga Research

Table 3: Breakdown of System Loans Repayment

RM'm	Jan-20	Feb-20	Mar-20	Apr-20	May-20	MoM Growth (%)	YoY Growth (%)
Purchase of securities	4,369	4,745	6,087	2,121	2,088	-1.6%	-32.5%
Purchase of transport vehicles	4,446	4,208	3,971	1,627	1,684	3.5%	-64.4%
Purchase of residential property	6,193	5,920	5,579	1,842	2,394	30.0%	-59.8%
Purchase of non-residential property	4,686	3,743	4,048	1,968	2,004	1.8%	-48.7%
Personal use	3,395	3,193	3,061	1,382	1,261	-8.8%	-57.2%
Credit card	14,117	12,654	12,186	9,292	9,382	1.0%	-27.2%
Construction	2,898	2,179	3,148	1,542	1,681	9.1%	-47.8%
Working capital	65,882	57,089	57,694	53,480	53,245	-0.4%	-9.1%
Others	3,857	3,757	3,976	2,800	4,524	61.6%	-17.3%
Total loans repaid	109,843	97,490	99,750	76,054	78,263	2.9%	-22.3%
- Household loans	31,144	30,096	30,121	15,324	16,320	6.5%	-42.5%
- Business loans	78,699	67,394	69,629	60,730	61,944	2.0%	-14.4%

Source: BNM, Kenanga Research

Loan applications from HH also picked up MoM, but offset by drop in business loan demand

Fig 5: Loans Application Trends

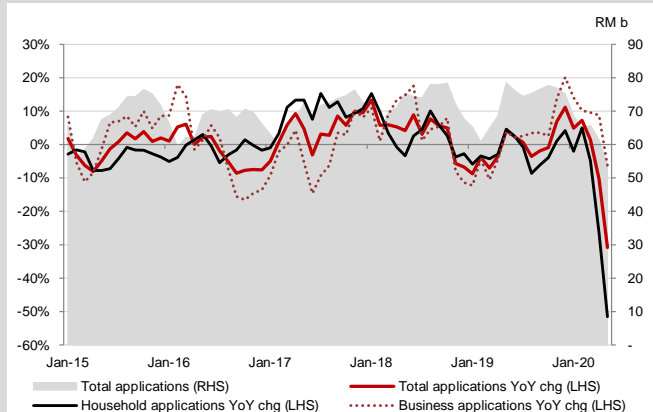
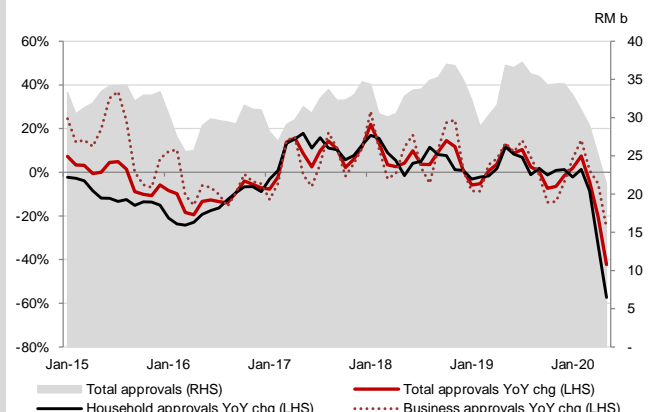


Fig 6: Loans Approval Trends



Source: BNM, Kenanga Research

01 July 2020

Table 4: Breakdown of System Loan Applications

RM'm	Jan-20	Feb-20	Mar-20	Apr-20	May-20	MoM Growth (%)	YoY Growth (%)
Purchase of securities	3,032	2,743	1,733	1,176	2,232	90%	-30%
Purchase of transport vehicles	6,339	7,022	5,304	683	2,818	312%	-58%
Purchase of residential property	16,012	20,118	17,767	6,666	10,454	57%	-60%
Purchase of non-residential property	6,641	7,630	6,523	1,894	2,635	39%	-69%
Personal use	5,455	5,579	4,785	1,657	2,129	29%	-64%
Credit card	3,475	3,121	2,964	1,271	1,177	-7%	-68%
Construction	2,972	2,598	2,443	2,353	1,808	-23%	-25%
Working capital	14,130	17,865	21,241	29,695	22,202	-25%	26%
Others	3,352	3,483	2,748	3,341	3,206	-4%	-48%
Total system loan applications	61,407	70,160	65,509	48,736	48,661	0%	-39%
- Household loan applications	33,695	38,231	32,710	11,054	18,176	64%	-60%
- Business loan applications	27,713	31,929	32,799	37,681	30,485	-19%	-12%

Source: BNM, Kenanga Research

Table 5: Breakdown of System Loan Approvals

RM'm	Jan-20	Feb-20	Mar-20	Apr-20	May-20	MoM Growth (%)	YoY Growth (%)
Purchase of securities	1,597	1,914	2,065	720	684	-5%	-68%
Purchase of transport vehicles	4,042	3,731	3,043	230	1,411	512%	-67%
Purchase of residential property	7,055	7,209	6,416	2,496	3,413	37%	-69%
Purchase of non-residential property	2,177	2,090	1,927	1,795	826	-54%	-73%
Personal use	1,921	2,194	1,928	660	873	32%	-57%
Credit card	1,520	1,309	1,216	280	275	-2%	-81%
Construction	2,304	1,489	1,100	584	725	24%	-51%
Working capital	7,051	6,509	7,645	9,386	8,924	-5%	-8%
Others	1,871	3,379	2,189	2,043	1,057	-48%	-78%
Total system loan approvals	29,538	29,825	27,529	18,192	18,186	0%	-54%
- Household loan approvals	15,738	15,861	13,871	4,322	6,603	53%	-68%
- Business loan approvals	13,801	13,964	13,658	13,871	11,583	-16%	-40%

Source: BNM, Kenanga Research

GIL well behaved but rising LLC suggests more aggressive pre-emptive loan provisioning made in 2QCY20

Fig 7: GIL trends

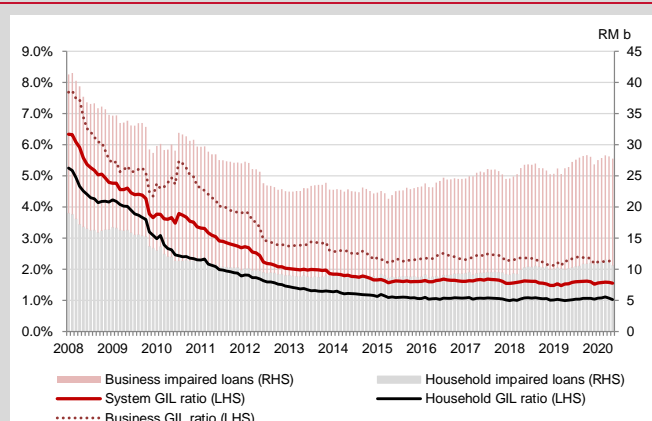
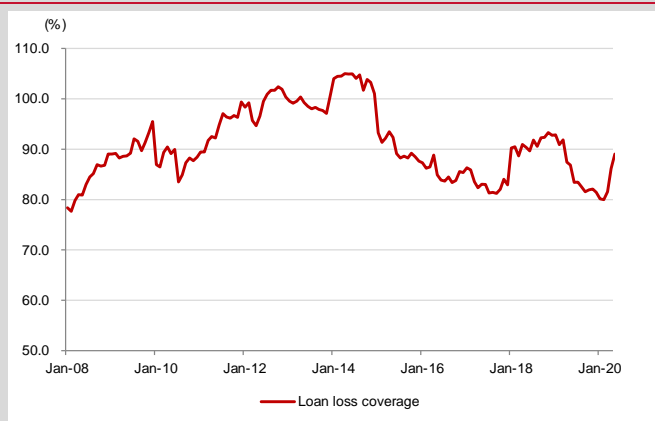


Fig 8: Loan Loss Coverage



Source: BNM, Kenanga Research

Table 6: Breakdown of System Impaired Loans And GIL Ratio By Purpose

RM'm	Jan-20	Feb-20	Mar-20	Apr-20	May-20	MoM Growth (%)	YoY Growth (%)
Purchase of securities	222	233	274	339	491	45%	63%
Purchase of transport vehicles	1,337	1,310	1,303	1,212	1,076	-11%	-31%
Purchase of residential property	7,202	7,249	7,460	7,254	7,054	-3%	11%
Purchase of non-residential property	3,173	3,201	3,190	3,188	3,190	0%	-2%
Personal use	1,722	1,785	1,823	1,722	1,626	-6%	-1%
Credit card	360	361	391	366	318	-13%	-12%
Construction	3,643	3,605	3,747	3,841	3,773	-2%	3%
Working capital	8,484	8,701	8,619	8,705	8,647	-1%	9%
Others	1,395	1,415	1,484	1,492	1,576	6%	14%
Total system impaired loans	27,538	27,859	28,292	28,120	27,752	-1%	5%
- Household impaired loans	11,066	11,151	11,466	11,015	10,595	-4%	5%
- Business impaired loan	16,472	16,708	16,826	17,105	17,158	0%	5%
GIL ratio							
Purchase of securities	0.3%	0.3%	0.3%	0.4%	0.6%		
Purchase of transport vehicles	0.8%	0.8%	0.8%	0.7%	0.7%		
Purchase of residential property	1.2%	1.2%	1.2%	1.2%	1.1%		
Purchase of non-residential property	1.4%	1.4%	1.4%	1.4%	1.4%		
Personal use	1.8%	1.8%	1.9%	1.8%	1.6%		
Credit card	0.9%	0.9%	1.0%	1.0%	0.9%		
Construction	6.1%	6.0%	6.2%	6.3%	6.2%		
Working capital	2.2%	2.2%	2.1%	2.1%	2.1%		
Others	1.5%	1.5%	1.5%	1.5%	1.6%		
System	1.6%	1.6%	1.6%	1.6%	1.6%		
- Household	1.1%	1.1%	1.1%	1.1%	1.0%		
- Business	2.2%	2.3%	2.2%	2.3%	2.3%		

Source: BNM, Kenanga Research

01 July 2020

Table 7: Breakdown of System Impaired Loans And GIL Ratio By Sector

RM'm	Jan-20	Feb-20	Mar-20	Apr-20	May-20	MoM Growth (%)	YoY Growth (%)
Households	11,066	11,151	11,466	11,015	10,595	-4%	5%
Primary agriculture	1,096	1,197	1,223	1,237	1,244	1%	6%
Mining & quarrying	444	269	272	264	265	0%	-51%
Manufacturing	3,456	3,711	3,886	3,916	4,270	9%	61%
Wholesale & retail trade, restaurants and hotels	2,216	2,219	2,223	2,252	2,296	2%	-6%
Construction	2,850	2,755	2,639	2,640	2,560	-3%	7%
Transport, storage and communication	1,935	2,031	2,035	2,025	1,742	-14%	-10%
Finance, insurance and business activities	3,241	3,258	3,263	3,467	3,449	-1%	-7%
Others	1,234	1,267	1,286	1,303	1,331	2%	1%
Total system impaired loans	27,538	27,859	28,292	28,120	27,752	-1%	5%
GIL ratio							
Households	1.1%	1.1%	1.1%	1.1%	1.0%		
Primary agriculture	3.0%	3.3%	3.4%	3.4%	3.5%		
Mining & quarrying	4.4%	2.8%	2.7%	2.6%	2.5%		
Manufacturing	2.9%	3.0%	3.1%	3.1%	3.4%		
Wholesale & retail trade, restaurants and hotels	1.7%	1.7%	1.7%	1.7%	1.7%		
Construction	1.4%	1.3%	1.3%	1.3%	1.2%		
Transport, storage and communication	4.9%	5.2%	4.9%	4.9%	4.2%		
Finance, insurance and business activities	2.8%	2.7%	2.7%	2.9%	2.9%		
Others	1.6%	1.6%	1.6%	1.6%	1.6%		
Total system impaired loans	1.6%	1.6%	1.6%	1.6%	1.6%		

Source: BNM

Liquidity and capital trends

Fig 9: Deposit Growth and Drivers

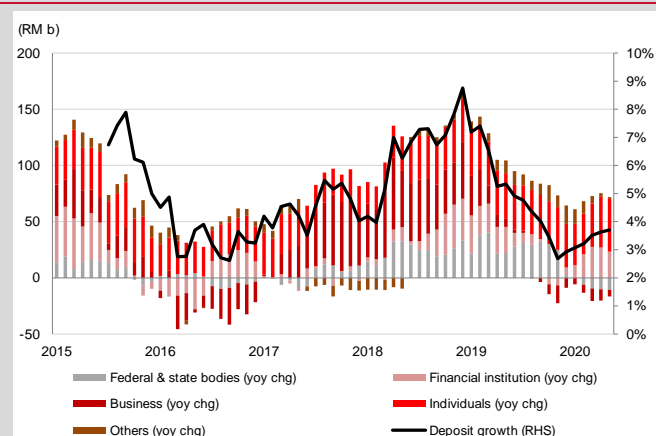
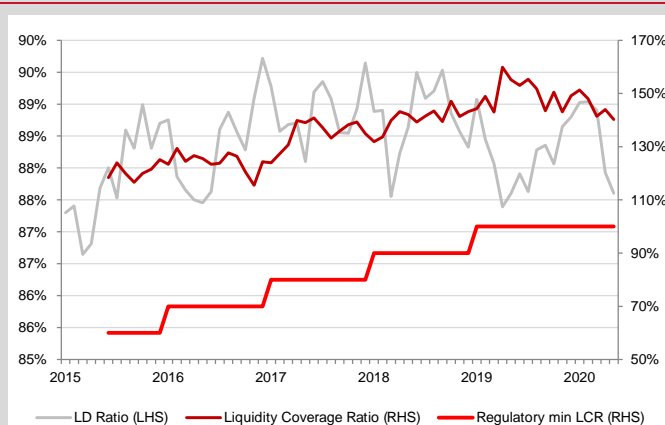


Fig 10: LDR and LCR trends



Source: BNM, Kenanga Research

Fig 11: Outstanding Liquidity With BNM

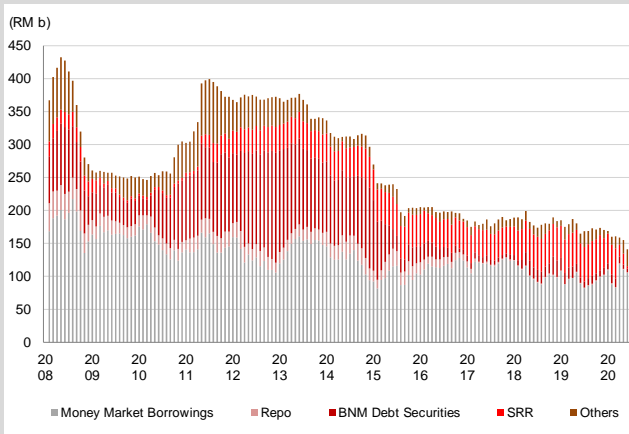
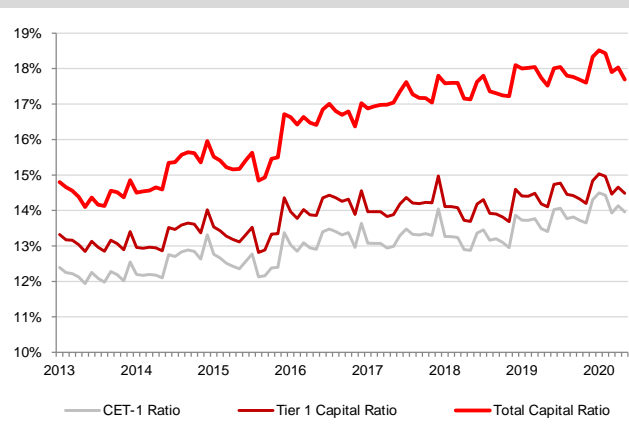


Fig 12: Capital Ratio Trends



Source: BNM, Kenanga Research

This page is intentionally left blank

01 July 2020

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
BANKING																		
AFFIN BANK BHD	1.58	3,137.9	N	12/2020	-6.3%	5.4%	-32.3%	22.5%	6.4	9.5	7.7	0.3	0.3	3.5%	3.2%	1.45	UP	
ALLIANCE BANK MALAYSIA BHD	2.18	3,374.9	N	03/2021	1.3%	3.9%	-20.6%	45.0%	8.0	10.0	6.9	0.6	0.5	5.5%	4.8%	2.20	MP	
AMMB HOLDINGS BHD	3.11	9,357.4	N	03/2021	-0.7%	5.6%	-13.8%	12.4%	7.0	8.1	7.2	0.5	0.5	6.1%	3.7%	3.60	OP	
BIMB HOLDINGS BHD	3.42	6,130.9	Y	12/2020	3.5%	6.3%	0.0%	7.8%	7.9	8.2	7.9	1.1	1.0	12.8%	4.7%	4.90	OP	
CIMB GROUP HOLDINGS BHD	3.56	35,325.8	N	12/2020	-0.8%	5.2%	-40.9%	27.1%	7.4	13.2	10.9	0.6	0.6	4.9%	3.8%	3.45	UP	
HONG LEONG BANK BERHAD	14.08	30,521.5	N	06/2020	-0.6%	3.2%	-12.1%	5.2%	10.8	12.3	11.7	1.1	1.1	9.0%	3.6%	17.00	OP	
MALAYAN BANKING BHD	7.51	84,422.6	N	12/2020	-1.9%	3.0%	-20.5%	9.2%	10.3	14.5	13.6	1.0	1.0	7.5%	5.1%	7.85	MP	
MALAYSIA BUILDING SOCIETY	0.62	4,162.3	N	12/2020	-13.1%	-5.2%	-57.6%	35.0%	5.7	13.3	9.9	0.5	0.5	3.5%	3.2%	0.60	UP	
PUBLIC BANK BERHAD	16.50	64,055.3	N	12/2020	-2.6%	5.2%	-18.4%	10.7%	11.6	14.2	12.9	1.5	1.4	10.1%	3.6%	18.00	MP	
RHB BANK BHD	4.79	19,208.1	N	12/2020	0.0%	3.7%	-12.6%	5.0%	7.7	8.8	8.4	0.7	0.7	8.3%	5.4%	6.00	OP	
Simple Average					-2.1%	3.6%	-22.9%	18.0%	8.3	11.2	9.7	0.8	0.8	7.1%	4.1%			

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my